



**TESTIMONY DELIVERED BY INSURANCE COMMISSIONER JOHN GARAMENDI
REGARDING THE IMPACT OF THE PROPOSED ACQUISITION OF PACIFICARE LIFE AND
HEALTH CO. BY UNITED HEALTH GROUP**

**Ronald Reagan Building, Main Auditorium, 1st Floor
Los Angeles, CA**

November 1, 2005

Good Morning. This is an investigatory hearing of the California Department of Insurance regarding the acquisition of control of PacifiCare Life and Health Company by United Health Group -- File No. IH05048697

On July 19, 2005, United Health Group, Inc. ("UHG") and PacifiCare Health Systems, Inc. ("PacifiCare") announced a planned merger. The proposed transaction, valued at roughly \$8.2 billion, would form the second largest health insurer in the United States, with combined revenue of \$65 billion and combined net income of \$4.1 billion. UHG plans to incur up to \$2.1 billion in debt to finance the merger transaction.

My overriding objective is to determine how this change in control will impact California policyholders. My department has been analyzing filings by the applicant and conferring with other regulators about the issues raised by this proposed transaction since it was announced in August.

The purpose of today's event is to receive the applicants' presentation of their case and to give the public an opportunity to consider and comment upon its impact.

Most are aware that I am deeply concerned about the healthcare system in California. I have compared it to a badly broken machine. It may continue to function poorly for a while, but it will inevitably break down if we do not heed and address the signs of imminent failure.

I am concerned that cost increases continue at a breakneck pace, resulting in more people being "priced out" of a sound and comprehensive system of care. I am concerned about escalating premiums, diminishing benefits, increasing cost sharing, unsustainable cost shifting, and the threat to California's valuable system of managed care. And I am concerned about the deterioration of public health and the increasing number of uninsured and underinsured.

Like others, I do see some hope in emerging initiatives in quality improvements and technology applications. But they are not yet fully evolved, and it is clear that we must begin to address the serious problems of this system now.

It would be unfair to assume that the companies before me could provide the answer to the system's problems. However, I do want to hear from them how the combined company would address these

challenges in a meaningful way that will benefit California. It goes without saying that I am not interested in any transaction that would make any of these problems worse.

Today's analysis is pursuant to Insurance Code Section 1215.2 (d).

In this regard we will examine the structure of the transaction, financial considerations, the operations of the current companies and their plan of operation post merger, the impact of this transaction on competition, the companies' history of claims handling and quality assurance, continuity of products and services, employment issues, and the commitment of the corporation to the underserved in California.

As I have indicated, my overarching concern in each of these areas is the impact of this merger on policyholders in California.

I have invited the applicants to present their case to us. This will be followed by questions from this panel. After that we will hear from the public. I have arranged for a few individuals who cannot be present for the entire hearing to make their statement now. After the panel examination, we will take testimony from those who made advanced arrangements with my office and then open the proceedings to any member of the public who wishes to speak.

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